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UNOPS

AUDIT REPORT

Follow-up to recommendations of the report of the Board of Auditors (A/51/5/Add.10)

Report of the Executive Director

I. PURPOSE

1. The Executive Director brings to the attention of the Executive Board the report of the Board of Auditors relating to the United Nations Office for Project Services (UNOPS) for the biennium ending 31 December 1995 (A/51/5/Add.10).

2. In accordance with General Assembly resolution 48/216 B of 23 December 1993 (para. 7), the present document sets forth the recommendations of the Board of Auditors and also presents the UNOPS response to each recommendation, as provided to the Board of Auditors during the preparation of its report (see annex). As appropriate, the status of the implementation of the measures taken and preliminary target dates are also expressed. The Executive Director is pleased to report that UNOPS is making progress in achieving the stated goals and that efforts will continue to address outstanding issues.

3. The Executive Director notes that the information contained in the present report has also been submitted to the General Assembly in the report of the Secretary-General (A/51/488/Add.2). The Advisory Committee on Administrative and Budgetary Questions (ACABQ), having reviewed the recommendations of the Board of Auditors, noted in its report to the General Assembly (A/51/533, para. 128) that it had no special comments on that section of the audit report pertaining to UNOPS.

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4. The Fifth Committee reviewed the documents cited above and accepted in its report (A/51/849) the recommendations and conclusions of the Board of Auditors and comments thereon contained in the report of ACABQ (A/51/533).

5. UNOPS also provided the Board of Auditors with a progress report on the status of implementation of the recommendations for the 1992-1993 biennium, a summary of which is included in the Board of Auditors report (A/51/5/Add.10).

II. EXECUTIVE BOARD ACTION

6. The Executive Board may wish to:

1. Take note of the comments made by the United Nations Office for Project Services in document DP/1997/27 in response to the recommendations made in the report of the United Nations Board of Auditors for the biennium 1994-1995 (A/51/5/Add.10);

2. Request the Executive Director to provide the Executive Board, at its annual session 1998, with an updated overview of the implementation of the recommendations of the Board of Auditors and an updated timetable indicating the dates when follow-up action will have been completed in the areas that need to be addressed.

Annex

EXTERNAL AUDIT 1995

Response of the General Assembly

L. United Nations Office for Project Services

39. The measures taken, or to be taken, by UNOPS to implement the recommendations of the Board of Auditors in its report for the biennium 1994-1995 are described below.

Financial matters

The Board identified three areas where there remained scope for improving financial control.

Recommendation 1 (para. 9 (a))

UNOPS should report to the Executive Board on progress in finalizing its new, dedicated Financial Rules and indicate a timetable for presentation of the Rules to the Executive Board for approval (see para. 39).

UNOPS will report to the Executive Board on this matter at its 1997 annual session. As the Financial Regulations of UNOPS are an annex to those of UNDP and the UNDP Financial Regulations and Financial Rules are scheduled for revision in 1997, UNOPS will, accordingly, schedule revision and promulgation of its dedicated Financial Rules taking into consideration UNDP's future proposals for revision of its Regulations and Rules. Meanwhile, the current UNDP Financial Rules apply to UNOPS mutatis mutandis. The Executive Director considers that the present situation enables him to fulfil his responsibilities for all UNOPS activities.

Recommendation 2 (para. 9 (b))

UNOPS should issue further guidance to certifying officers to clarify that only those purchase orders or contracts signed and issued within the financial period represent valid obligations for that period (see para. 41).

UNOPS agrees and has communicated this finding to the appropriate individuals. Additionally, this matter will be addressed in the UNOPS Handbook prior to the end of 1996 and further reminders and guidance will be issued well in advance of the end of the current financial period.

Recommendation 3 (para. 9 (c))

UNOPS should closely monitor actual expenditure against budget to avoid the high incidence of overexpenditure (see para. 43).

UNOPS agrees and is actively monitoring the situation on an ongoing basis through the generation of monthly reports and through continual follow-up. At the date of this response, the number of project budgets with lifetime budget overexpenditures has been reduced to six.

Management issues

Business planning and development

The Board concluded that the UNOPS initiative in developing an annual business plan was a significant step forward for the new organization. The Board identified several areas, however, where there was scope for improving the business plan.

Recommendation 3 (para. 10 (a))

UNOPS should set realistic objectives in its business plans and consider the costs and benefits of undertaking the planned tasks (see para. 56).

Section 5 of the 1996 UNOPS Business Plan has been revised to focus on objectives rather than tasks. Additionally, section 5 now includes anticipated benefits and order of magnitude cost assessment.

Recommendation 4 (para. 10 (b))

UNOPS should assess the potential impact that the shifting composition of its portfolio could have on its financial position and set financial targets which reflect its differential income rates (see para. 59).

Section 3 of the 1996 UNOPS Business Plan analyses the impact of portfolio shifts since 1995. Section 4 includes projections of financial targets by client and by division.

Recommendation 5 (para. 10 (c))

In future business plans, UNOPS should prioritize tasks to ensure that they are implemented according to their respective importance to the organization (see para. 61).

All objectives are now prioritized in section 5 of the 1996 UNOPS Business Plan.

Recommendation 6 (para. 10 (d))

UNOPS should establish appropriate measures of success and benchmarks of current performance to assess the impact of its business plans on quality of service and client relations (see para. 67).

Measures of success are now included in section 5 of the 1996 UNOPS Business Plan.

Recommendation 7 (para. 10 (e))

UNOPS should prepare an evaluation strategy (see para. 70).

UNOPS is carrying out the evaluative activities set forth in paragraph 71 of the audit report: the UNOPS Planning and Information Division will maintain responsibility for planning, development and implementation of the Business Plan; the anticipated Finance, Control and Administration Division will evaluate performance improvements; and, in addition to the interim organizational evaluation of the UNOPS Asia Office conducted in April 1996, a follow-on evaluation of that office will be conducted in the first quarter of 1997.

Appointment and management of consultancy services

The Board concluded that UNOPS needed to improve its practices concerning the appointment and management of consultancy services.

Recommendation 8 (para. 11 (a))

UNOPS should regularly review the extent of repeat recruitment to ensure that it exercises sufficient choice in the selection of individual consultants and consultancy firms (see para. 84).

UNOPS concurs. Currently, repeat recruitment is monitored through the UNOPS Procurement Review Advisory Committee and the Projects Personnel Support Unit. In the future, however, the Finance, Control and Administration Division, to be established in the first quarter of 1997, will review these procedures with a view to further improvement.

Recommendation 9 (para. 11 (b))

UNOPS should undertake periodic analyses to identify the specialisms most in demand and any shortfalls in supply, with a view to registering individuals and firms with the required skills in advance of possible assignments (see para. 88).

UNOPS agrees and notes that, in the case of individual consultants, progress in this area depends upon resolution of the difficulties

encountered as a result of roster sharing with UNFPA and UNDP. Once this issue is resolved, UNOPS envisages a review of the rosters and expanded efforts to identify needed expertise. UNOPS will then be in a position to advertise for such expertise and to place qualified firms and individuals on the rosters. The recently established office of the Director of Operations has assumed responsibility for enhancement and systematic use of the rosters.

Recommendation 10 (para. 11 (c))

UNOPS should screen and, where appropriate, register on the consultants' roster those candidates whose details are not yet on the roster; ensure that all staff are fully trained in the use of the roster; and investigate the scope for making the roster available to the UNOPS office in Kuala Lumpur (see para. 102).

UNOPS concurs with the recommendation and is continuing to register individual consultants on the roster. Training on the use of the roster is now available to UNOPS staff as needed and systematic training sessions will be organized for 1997. The RESTRAC résumé database and 'Finder' module on CD-ROM has been available in the UNOPS Asia Office since June 1996.

Recommendation 11 (para. 11 (d))

UNOPS should undertake a review of current market rates for consultancy services, to be used as a benchmark for setting fees, and issue new guidelines to ensure that staff determine fees on a consistent and transparent basis (see para. 103).

UNOPS agrees and suggests that, in view of differing practices which exist among UNOPS, UNDP, UNICEF and UNFPA, the matter may be best dealt with in an inter-agency context. UNOPS will schedule this matter for discussion at a forthcoming inter-agency personnel meeting.

Price-setting and cost control

The Board concluded that UNOPS needed to strengthen and update its price-setting and cost control measures.

Recommendation 12 (para. 12 (a))

UNOPS should develop a workload assessment and costing system (see para. 119).

The development of such a system is included in the 1996 UNOPS Business Plan. UNOPS expects this task to be completed in the second quarter of 1997.

Recommendation 13 (para. 12 (b))

UNOPS should revise the bases for calculating Management Service Agreement fees to reflect current costs more accurately (see para. 123).

UNOPS intends to introduce up-to-date service unit costs in 1997, to clearly document the rationale therefor and to revise these cost schedules as appropriate. The necessary condition for accomplishing this task is the completion of the reorganization process which establishes a new basis for calculating costs. The structural aspects of reorganization will be completed in 1997 and any necessary revision in Management Service Agreement fee structures will be made by the end of 1997.

Recommendation 14 (para. 12 (c))

UNOPS should establish a formal agreement with UNDP that country offices provide UNOPS with a breakdown of their estimated costs in support of Management Service Agreement activities in the field (see para. 128).

UNOPS is currently pursuing the finalization of an umbrella agreement with UNDP which will permit the establishment of detailed and accurate cost breakdowns. This agreement is expected to be finalized before the end of 1996.

Recommendation 15 (para. 12 (d))

UNOPS should assess and document, as part of the project acceptance process, whether the costs of delivering a project are likely to be met by the charges or fees set by or agreed with the relevant clients (see para. 131).

UNOPS recently established the office of the Director of Operations and it has assumed the administration of the project acceptance process. The Executive Director has requested the Director of Operations to revisit the question of a project-by-project assessment of costs and fees.

Recommendation 16 (para. 12 (e))

UNOPS should assess the levels of annual surpluses and accumulated unspent resources to determine levels which are reasonable and consistent with its business objectives (see para. 139).

UNOPS will submit a report on this issue at the 1997 annual session of the Executive Board.

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UNITED NATIONS OFFICE FOR PROJECT SERVICES

Risk management, reserves and surplus income

Revised budget estimates for the biennium 1996-1997 and budget estimates for the biennium 1998-1999

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) has considered the reports of the Executive Director of the United Nations Office for Project Services (UNOPS) on risk management, reserves and surplus income (DP/1997/26) and on the revised budget estimates for the biennium 1996-1997 and estimates for the biennium 1998-1999 (DP/1997/29). In addition, as a background document, the Committee had before it the interim financial statements for the year ended 31 December 1996. During its consideration of these items, the Committee met with representatives of the Executive Director who provided additional information.

Risk management, reserves and surplus income

2. The report of the Executive Director on risk management reserves and surplus income indicates that a comprehensive review of UNOPS's risks and liabilities has revealed that the current operational reserve, set at $6.8 million or approximately 20 per cent of the annual administrative budget of UNOPS, does not adequately protect UNOPS against the risks to which it is exposed as a self-financing operational organization (DP/1997/26, paras. 9-10). The Executive Director recommends in his report that the funding level of the reserve be set at 4 per cent of the combined expenditure on administrative and project budgets of the previous year. Based on the total expenditure of $465.2 million in 1996, the reserve would be set at $18.6 million for the biennium 1998-1999 (DP/1997/26, paras. 18-19). The Executive Director proposes to review the appropriateness of the reserve level on a biennial basis in conjunction with the budget submission and to report annually on drawdowns from the reserve in the UNOPS financial statements (DP/1997/26, para. 28).

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3. The Advisory Committee welcomes the report of the Executive Director, which was prepared taking into account observations made by the ACABQ in its reports DP/1994/57 and DP/1995/13. The Committee recommends that the Executive Board accept the proposal of the Executive Director.

4. The Advisory Committee notes from paragraphs 6 and 19 of document DP/1997/26 that UNOPS has made cautious and conservative assumptions with regard to the types and extent of risk exposure and that although it has recovered from the downturn of 1993-1994, it has concluded that it is premature to expect that the positive results of 1994-1995 would establish a long-term trend. The Committee notes that the financial uncertainty in 1993-1994 resulted in the slowdown or deferral of some administrative expenditures, in particular in information systems. This fiscal restraint has resulted in increases of unspent income balances. As of 31 December 1996, UNOPS reported accumulated unspent income of $10.8 million, which added to the current operational reserve of $6.8 million resulted in a total of reserves and accumulated unspent income of $17.6 million.

5. Upon inquiry, the Advisory Committee was informed that, as indicated in paragraph 21 of document DP/1997/29, UNOPS has initiated a study for deciding upon the information system strategy to be followed for the year 2000 and beyond and assessing in particular the potential implications and impact of the use by UNOPS of the United Nations Integrated Management Information System (IMIS) project. The Committee was informed that the Executive Director proposes, as a matter of priority, to use part of the accumulated unspent income in 1998-1999 for systems development. Very preliminary estimates for systems development expenditure are about $4.3 million for 1998-1999 and, consequently, this amount would not be available from surplus income for the replenishment of the operational reserve. The Committee points out that this amount of $4.3 million for systems is in addition to $2.6 million estimated for systems development contracts and microcomputer hardware and software in 1998-1999 (see para. 16 below and DP/1997/29, table 2).

Revised administrative budget for 1996-1997

6. As indicated in paragraph 7 and table 1 of document DP/1997/29, the revised projection of income for the biennium 1996-1997 amounts to $77.4 million, or $10.2 million more than originally projected. The revised administrative budget proposal for 1996-1997 amounts to $70.6 million, or about $5.2 million more than the approved administrative budget of $65.4 million for 1996-1997 (DP/1997/29, table 2).

7. In 1996, total income amounted to $36.8 million, comprising $31.6 million from project delivery (of $430.8 million) and other income of $5.2 million. Administrative expenditures totalled $32.2 million in 1996. For 1997, total income is projected at $40.6 million, comprising $35.3 million from projected project delivery (of $500 million) and other income of $5.3 million. The projected revised administrative expenditure for 1997 amounts to $38.5 million (DP/1997/29, paras. 8-12 and table 1). The Committee was provided, upon request, with the service rates charged by UNOPS in 1996 (see annex I to the present report).

8. The Advisory Committee notes from paragraph 8 of document DP/1997/29 that the target for project delivery of $500 million in 1997 represents a 16 per cent increase in project delivery as compared to 1996 delivery and may, in fact, be "a very real challenge to UNOPS." The Committee notes that the financial viability of UNOPS as an entirely self-financing entity depends on the demand for UNOPS services.

9. As indicated in paragraph 6 of the annual report of the Executive Director (DP/1997/19), the composition of the newly acquired portfolio of UNOPS in 1996 included UNDP core resources, with the largest share of 37 per cent, followed by Management Services Agreements with international financial institutions and bilateral donors (especially Japan), with 30 per cent; UNDP Trust Funds, the Global Environmental Facility and the Montreal Protocol, with 19 per cent; and Governments of recipient countries and other United Nations agencies and programmes, with 14 per cent. The Committee is aware of the continued decline in overseas development assistance to the United Nations development activities, which will affect the overall resources available to UNDP and, consequently, the demand for UNOPS services. In this connection, the Committee notes that "UNDP has shifted from a funds provider to a service provider, from providing equipment to providing knowledge-based services, where ideas, best practices, analysis, advocacy, connections to expertise, etc. are the heart of UNDP work" (DP/1997/23, para. 9). The Committee is of the view that the division of labour between UNOPS and UNDP merits some review, in the light of the latter's newly defined emerging dual role. The Committee stresses the need for UNOPS to redouble its efforts to diversify its portfolio.

10. The Advisory Committee notes that "with the current growth in business volume and related need for delivery capacity, the number of personnel... is expected to increase through 1997 and then stabilized at the 1997 level through the 1998-1999 biennium" (DP/1997/29, para. 13). The Committee further notes that, under its delegated authority, during the 1996-1997 biennium, the Executive Director will increase the total of 244 established posts to 281 posts. This additional 37 posts includes 4 posts to be assigned to a regional office at Abidjan, Cote d'Ivoire. In paragraph 15 of document DP/1997/29, the Executive Director requests the endorsement of the Executive Board. The Advisory Committee recommends acceptance of the Executive Director's request. In this connection, the Committee trust that UNOPS will continue to manage posts in a flexible manner.

11. Upon inquiry, the Committee was informed that the office in Abidjan, as another established in Nairobi, Kenya, will provide regional support to projects of the International Fund for Agricultural Development (IFAD); the heads of these offices report to the Chief of the IFAD Division in UNOPS headquarters. Other decentralized offices of UNOPS include the Rehabilitation and Social Sustainability Unit in Geneva (with a sub-unit in El Salvador), the Procurement Projects Division in Copenhagen and the Asia Office in Kuala Lumpur, Malaysia; these three offices report to the Director of Operations at UNOPS headquarters.

12. Reimbursement to UNDP for services provided are discussed in paragraphs 17-19 of document DP/1997/29. The Advisory Committee notes that the total reimbursement to UNDP for compensation to the UNDP country offices for additional costs they incur while providing services to UNOPS projects and for

UNDP central services (including those provided by the Division for Audit and Management review of UNDP and the UNOPS share of United Nations central services) amount to $6.0 million in 1996 and $6.2 million in 1997 (DP/1997/29, table 2). The Committee notes that these services and the costs associated with them are under study and that the results of this study will be incorporated in the next available budget submission.

Administrative budget for 1998-1999

13. For the 1998-1999 biennium, UNOPS total income projections amount to $84.7 million, comprising income of $74.1 million (from project delivery estimates of $1,050 million) and other income of $10.6 million. The administrative budget expenditure is proposed at the level of $84.7 million; no surplus income is foreseen (DP/1997/29, paras. 22-23 and table 1).

14. The Advisory Committee is of the view that the rapid increase in programme delivery that started in 1995 and continued in 1996 is directly related to the implementation of the UNOPS reform and the introduction of new work methods, together with enhanced computer-based information systems (see DP/1997/19, paras. 18-24). For the 1998-1999 biennium, the Committee doubts that the increases in project delivery can be sustained. The Committee trusts that the UNOPS resources will continue to be managed in a manner consistent with its self-financing status. The Committee notes that UNOPS is confident that the tools that it has developed - the Financial Management Model and the business planning process - will permit it to maintain a tight balance between providing quality of services and competitive administrative overhead costs.

15. With regard to the budget estimates for the decentralized offices mentioned in paragraph 11 above, upon inquiry, the Advisory Committee was provided with information on the proposed staffing and costs estimates for 1998-1999 (see annex II to this report). The Committee understands that offices away from headquarters also operate on a self-financing basis and that the continued financial viability of UNOPS decentralized offices is reviewed on an annual basis (see DP/1997/19, para. 21). The Committee is of the view that UNOPS, before attempting to open separate new field offices, should explore the possibility of sharing common premises and services with other agencies in the field, so that further economies may be realized in its field operations.

16. The Advisory Committee notes from table 2 of document DP/1997/29 that the Executive Director proposes a total expenditure of $6,912,000 for electronic data processing systems compared to $2,625,000 proposed in the revised estimates for 1996-1997. The Committee trusts that UNOPS will take into account in its evaluation process of various systems development options the systems modules developed by the United Nations IMIS and use these to the extent that they are cost effective in the operations of UNOPS.

Annex I

Table of UNOPS "Overhead" Rates

Source of Funds	1996 Delivery		1996 Gross Income			
	Amount ($M)	% of Total Delivery	Ave. Income Rate	Amount ($M)	% of Delivery Income	% of Total Income
INCOME FROM IMPLEMENTATION OF PROJECTS ENTRUSTED TO UNOPS						
UNDP Funded Projects	$162.4	37.7%	10.1%	$16.5	52.2%	44.8%
UNOPS as Cooperating/ Associated Agency	$20.0	4.6%	9.5%	$1.9	6.0%	5.2%
UNDCP Funded Projects	$8.9	2.1%	7.9%	$0.7	2.2%	1.9%
Trust Fund Projects	$88.4	20.5%	7.0%	$6.1	19.3%	16.6%
Other UN Organizations	$0.9	0.2%	7.8%	$0.1	0.3%	0.2%
Management Services Agreements	$150.2	34.9%	4.2%	$6.3	20.0%	17.1%
TOTAL FROM DELIVERY	**$430.8**	**100%**	**7.3%**	**$31.6**	**100%**	**85.8%**
INCOME FROM IFAD LOAN ADMINISTRATION & PROJECT SUPERVISION (SERVICES ONLY)						
IFAD	NA	NA	NA	$3.3	NA	9.0%
OTHER INCOME						
Interest, PAPP, and other	NA	NA	NA	$1.9	NA	5.2%
TOTAL	**$430.8**	**100%**	**8.5%**	**$36.8**	**NA**	**100%**

Annex II

UNITED NATIONS OFFICE FOR PROJECT SERVICES

SUMMARY OF BUDGETED COST AND FORECAST STAFFING FOR DECENTRALIZED OFFICES FOR THE BIENNIUM 1998/99

(Figures quoted in $ millions)

	Costs			Staff		
Office/location	Staff	Non-staff	Total	Prof.	G/S	Total
Copenhagen	4.4	1.9	6.3	11	19	30
Kuala Lumpur	3.9	1.3	5.2	11	18	29
RESS unit (Geneva/ El Salvador)	2.5	0.8	3.3	4	11	15
Nairobi	0.9	0.2	1.1	3	5	8
Abidjan	0.3	0.1	0.4	2	4	6
TOTAL	12	4.3	16.3	31	57	88

This summary excludes any New York costs for support management or central services.

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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

UNOPS BUDGET ESTIMATES FOR THE BIENNIUM 1998-1999

Revised budget estimates for the biennium 1996-1997 and budget estimates for the biennium 1998-1999

Report of the Executive Director

The revised budget estimates for the biennium 1996-1997 and budget estimates for the biennium 1998-1999 for the United Nations Office for Project Services (UNOPS) are contained in the present document. They have been reviewed and approved by the Management Coordination Committee and submitted to the Advisory Committee on Administrative and Budgetary Questions.

The revised budget for the biennium 1996-1997 proposes an increase from $65.4 million to $70.6 million.

The budget estimates for the biennium 1998-1999 are for $84.7 million.

Both budget proposals are based on documented growth in the UNOPS project portfolio, and are expected to be fully funded through income derived from services provided by UNOPS, consistent with the self-financing principle according to which UNOPS operates.

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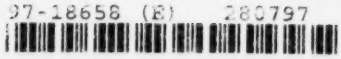

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I. INTRODUCTION

1. The present document contains the revised budget for the biennium 1996-1997 and the budget estimates for the biennium 1998-1999 for the United Nations Office for Project Services (UNOPS), submitted in accordance with Executive Board decision 94/32 calling for the presentation of biennial budget estimates separate from those of the United Nations Development Programme.

2. Pursuant to UNOPS Financial Regulations 6.3 and 6.4, the present budget estimates are being submitted through, and have been approved by, the Management Coordination Committee (MCC), and are at the same time being transmitted to the Advisory Committee on Administrative and Budgetary Questions (ACABQ).

3. The budget estimates are consistent with UNOPS Financial Regulation 6.2, calling for the budget to cover proposed expenditures and anticipated income related to the biennium, and are based on the application of the financial management model described in the previous biennial budget submission (DP/1995/60) and noted by the Executive Board in its decision 95/31 of 15 September 1995, and on the UNOPS business plan, which will be made available to the Executive Board at the current session.

4. The Executive Director is pleased to report that in 1996 UNOPS has again operated in accordance with the self-financing principle. The budget projections contained in the present document are based on the expectation that it will continue to do so through the present biennium and the 1998-1999 biennium.

II. REVISED ESTIMATED INCOME AND ADMINISTRATIVE EXPENDITURES FOR THE BIENNIUM 1996-1997

5. Previous estimates of income were based on the aggregate formula presented in documents DP/1995/60 and DP/1996/36. In estimates for the current biennium, UNOPS is now placing more emphasis on the detailed delivery and income performance and projections of operations divisions as put forward in the business planning process. As introduced in the revised budget estimates for the biennium 1996-1997 (DP/1996/36), all income projections are of gross income, with amounts paid to UNDP country offices to compensate for costs incurred on behalf of UNOPS being shown separately as administrative expenditures.

6. Funds committed by UNOPS clients for implementation of projects by UNOPS, referred to as the project portfolio, amounted to $1.4 billion at the beginning of 1997. In addition, UNOPS is administering loans on behalf of the International Fund for Agricultural Development (IFAD) valued in excess of $1.5 billion, bringing the overall value of the development funds for which UNOPS assumes responsibility to nearly $3 billion.

A. Income

7. The total income to be earned in the biennium had been projected in document DP/1996/36 at $67.2 million, on which basis the administrative budget was established. The revised income projections contained in the present document are based on the actual income achieved for 1996 and on income estimates developed during the 1997 business planning process. The revised projection of income for the 1996-1997 biennium amounts to $77.4 million, or $10.2 million more than originally projected. Table 1 provides an overview of the income performance and projections.

1. Income from project implementation

8. In 1996, project delivery totaled $430.8 million, which generated an income of $31.6 million; in 1997, the business plan target for UNOPS project delivery is $500 million - a 16 per cent increase - with an income projection of $35.3 million. This target represents a very real challenge to UNOPS; however, new business acquisitions and project delivery through May 1997 indicate that the targets are attainable.

2. Income from "services only" activities

9. As noted in the annual report of the Executive Director (DP/1997/19), UNOPS is increasingly asked to provide services in support of project execution and contracting carried out by other parties, such as the loan administration services provided for nationally executed loans from IFAD.

10. In 1996, UNOPS earned $3.3 million from services rendered to IFAD for loan administration and supervision of its projects. Income from this source is projected at $4 million for 1997, based on continued growth of the IFAD portfolio.

3. Other income

11. UNOPS income also includes minor additional elements such as interest income and, during 1996, items such as the contribution from the Government of Denmark relating to the relocation of the Division for Procurement Projects to Copenhagen. This income is projected at $1.3 million in 1997, $1.0 million of which is interest income. Interest income is earned on the balance of operating and reserve funds invested by the UNDP Treasury on behalf of UNOPS.

B. Administrative expenditures

12. The approved administrative budget for the 1996-1997 biennium is $65.4 million. Actual expenditure for 1996 totalled $32.2 million. The projected administrative expenditure for 1997 is $38.5 million. The revised budget proposal for the 1996-1997 biennium is therefore increased by $5.2 million to $70.6 million, the full amount of which will be met by UNOPS income. Details of the administrative budget are presented in table 2; significant differences from the approved budget and key items of expenditure are explained below.

1. Staffing resources

13. Salaries and common staff costs are typically the largest component of the administrative budget, and tend to parallel the volume of business. With the current growth in business volume and related need for delivery capacity, the number of personnel (comprised both of staff members against established posts and other persons employed for limited duration) is expected to increase through 1997 and then stabilize at the 1997 level through the 1998-1999 biennium. In all instances, vacancies are filled only when necessary and justified by demand and supported by projected income.

14. Thirty-seven new posts at the P-5 level or below (1 Professional, 36 General Service) have been established since 1 January 1996, bringing the total from 244 to 281. As of 31 May 1997, 247 persons were employed by UNOPS,

of whom 221 are staff members in the 100/200/300 series. It may be recalled from document DP/1996/36 that the establishment and abolition of posts in UNOPS has an effect only on the types of contracts under which people can be recruited, and does not have direct financial implications as there is no assessed budget funding of the posts. UNOPS staffing is a mix of staff against established posts and other personnel recruited under contracts for activities of limited duration (ALD) or special service agreements (SSAs). The balance between these types of staff remains generally consistent, although changes are made as specific needs evolve. Table 3 provides details of UNOPS staffing arrangements.

15. UNOPS considers that the increased number of established posts and the balance of staff against posts, ALDs, and SSAs properly reflects its needs for 1997 and the forthcoming biennium. It may be noted that while the growth in number of posts is 15 per cent over the 1994-1995 biennium, service delivery is projected to increase by 21 per cent. The Executive Board is requested to approve the establishment of the additional 37 posts, of which 4 will be assigned to Abidjan.

2. Decentralized offices

16. In 1996, UNOPS established offices in Copenhagen and Geneva. In May 1997 the MCC endorsed a proposal for the establishment of an office at Abidjan, Ivory Coast. Based on a cost-benefit analysis, this office will initially manage a portfolio of IFAD projects but will also provide local support to operations in West Africa. The cost of establishing the Abidjan office is included in the overall administrative budget. The relocation of 1 post from headquarters to Abidjan is anticipated, for which approval of the Executive Board is requested.

3. Reimbursements to UNDP for services provided

17. UNOPS compensates UNDP country offices for additional costs they incur while providing services to projects implemented by UNOPS. Such compensation totalled $1.8 million in 1996, and is projected at $2.0 million for 1997 and for each year of the 1998-1999 biennium.

18. Payments to UNDP for central services provided by it (including by the Division for Audit and Management Review) and for the UNOPS share of United Nations central services totalled $4.1 million in 1996, and are projected at $4.2 million for 1997. These services and the costs associated with them have been studied by UNOPS and UNDP over recent months to obtain greater clarity and transparency. This study has not yet been concluded but its results will be incorporated in the next available budge: submission.

19. Reimbursements to UNDP for the country office and central services provided by or through it amounted to approximately 18 per cent of the total 1996 administrative costs.

4. Information systems

20. In 1996, UNOPS implemented a major upgrade to its information systems hardware and software platform that had been deferred from previous years. Some of this upgrade will continue into 1997 with the objective of improving communications within New York and between New York and decentralized offices

and, wherever feasible, with project sites.

21. UNOPS has also initiated a study to provide a sound basis for deciding upon the UNOPS Information Systems strategy for the year 2000 and beyond, assessing in particular the potential implications and impact of the Integrated Management Information System (IMIS) project. This study will determine the precise nature and extent of the system development and replacement that will be necessary; it is certain, however, that major work will need to be undertaken and that this will have significant budgetary implications for the current and next bienniums. UNOPS considers that the budget established as a separate line on table 2 fairly reflects the known extent and timing of likely costs. In 1998-1999, the principle has been to apply all UNOPS surplus income to this long-term investment. Any reduction of cost will be immediately reflected in UNOPS financial reports: further investment that may be required will be treated as a shortfall of income and funded on a short-term basis from the operational reserve. This approach may need to be revisited next year as the project implications and costs become clearer.

III. PROJECTIONS OF INCOME AND ESTIMATED BUDGET EXPENDITURES FOR THE BIENNIUM 1998-1999

22. UNOPS anticipates that its portfolio, delivery and income levels in the 1998-1999 biennium will remain in the same order of magnitude as those now anticipated for 1997. This forecast is supported by the detailed business plan projections for 1997 and by experience to date in 1997, taking into consideration anticipated fluctuations in nature or mix of the project portfolio.

23. Table 1 presents an overview of the 1998-1999 biennium budget estimates, with administrative cost details summarized in table 2. Both income and administrative cost are projected at $84.7 million for the biennium owing to the budgetary impact of the impending information system project and the funding principle proposed in paragraph 21. The project is expected to absorb all forecast surplus income for the biennium, and may have implications for reaching the reserve funding level proposed in document DP/1997/26 should it be approved by the Executive Board.

24. UNOPS resources will continue to be managed in a manner consistent with its self-financing status. The portfolio, budgets and expenditures, income, and administrative expenditures shall continue to be monitored and managed on a monthly basis so that timely action is taken to make the necessary adjustments.

25. A review of the variables of the UNOPS financial management model has already become a standing feature of the MCC meetings. Should the value of new project budgets accepted during 1998 and 1999 fall short of expectations, decisions will be made to cut costs, including staff costs, to levels compatible with the best income estimates. Such decisions shall be made in full consultation with the MCC and the Executive Board shall be informed as appropriate. The administrative cost is in any case expected to be fully funded by income derived from services provided by UNOPS, in accordance with the self-financing principle.

IV. EXECUTIVE BOARD ACTION

26. The Executive Board may wish to:

1. Take note of the report of the Executive Director on revised budget estimates for the biennium 1996-1997 and budget estimates for the biennium 1998-1999 (DP/1997/29);

2. Approve the revised budget estimates for the 1996-1997 biennium in the amount of $70,579,000;

3. Approve the budget estimates for the 1998-1999 biennium in the amount of $84,700,000;

4. Approve the establishment of 37 additional posts, and the relocation of 1 post from New York to the Abidjan office.

Table 1 . Projections of project expenditures (UNOPS delivery) and UNOPS income for the biennium 1996-1997 and 1998-1999, with comparative figures for the biennium ended 1994-1995

(In millions of US dollars)

	1994-1995 Actual	1996-1997 Approved/ estimates	1996 Actual	1997 Projected	1996-1997 Revised	1998 Projected	1999 Projected	1998-1999 Projected
Delivery	768.7	918.3	430.8	500.0	930.8	550.0	500.0	1 050.0
Income from implementation of projects entrusted to UNOPS	52.9	59.7	31.6	35.3	66.9	38.8	35.3	74.1
Income from "services only" (IFAD)	5.7	6.0	3.3	4.0	7.3	4.0	4.0	8.0
Other	0.7	1.5	1.9	1.3	3.2	1.3	1.3	2.6
Total income	59.3	67.2	36.8	40.6	77.4	44.1	40.6	84.7
Administrative expenditures	55.6	65.4	32.2	38.5	70.7	44.1	40.6	84.7
Net income	3.7	1.8	4.6	2.1	6.7	0.0	0.0	0.0

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Table 2. Revised budget estimates for the biennium 1996-1997 and budget estimates for the biennium 1998-1999

(In thousands of U.S. dollars)

Object of expenditure	Approved estimates 1996 - 1997	Actual expenditure 1996	Estimated expenditure 1997	Revised estimates for biennium 1996-1997	Estimates for biennium 1998 - 1999
010 SALARIES	22 400.0	9 486.0	11 907.0	21 393.0	27 716.0
100 COMMON STAFF COSTS	12 800.0	5 657.0	7 372.0	13 029.0	17 296.0
030 TEMPORARY ASSISTANCE	2 000.0	1 682.0	1 044.0	2 726.0	2 106.0
070 ACTIVITIES OF LIMITED DURATION (ALDs)	3 300.0	1 689.0	1 497.0	3 186.0	3 130.0
040 CONSULTANTS	1 300.0	883.0	900.0	1 783.0	2 000.0
050 OVERTIME	250.0	204.0	250.0	454.0	500.0
220 OTHER STAFF TRAVEL	1 250.0	574.0	750.0	1 324.0	1 800.0
310 CONTRACTUAL PRINTING	120.0	54.0	66.0	120.0	130.0
330 TRANSLATION	50.0	17.0	25.0	42.0	50.0
340 SYSTEM DEVELOPMENT CONTRACTS	1 000.0	434.0	275.0	709.0	600.0
350 SUBCONTRACTS	800.0	153.0	1 100.0	1 253.0	1 800.0
410 RENT AND MAINTENANCE	4 700.0	1 978.0	2 900.0	4 878.0	5 000.0
420 UTILITIES	200.0	91.0	100.0	191.0	250.0
430 RENT AND MAINTENANCE OF EQUIPMENT	200.0	71.0	75.0	146.0	150.0
440 COMMUNICATIONS	1 900.0	738.0	1 000.0	1 738.0	1 900.0
450 HOSPITALITY	10.0	9.0	30.0	39.0	60.0
490 MISCELLANEOUS SERVICES	450.0	157.0	150.0	307.0	300.0
510 OFFICE SUPPLIES	500.0	388.0	300.0	688.0	600.0
610 OFFICE FURNITURE AND EQUIPMENT	200.0	164.0	200.0	364.0	400.0
620 MICROCOMPUTERS HARDWARE/SOFTWARE	803.0	1 767.0	850.0	2 617.0	2 000.0
630 TRANSPORTATION EQUIPMENT	20.0	0.0	0.0	0.0	0.0
710 REIMBURSEMENT FOR NYCS/ICC	150.0	0.0	0.0	0.0	0.0
Subtotal	54 400.0	26 196.0	30 791.0	56 987.0	67 788.0
000 SYSTEMS IMPLEMENTATION	0.0	0.0	1 500.0	1 500.0	4 312.0
740 SERVICES PROVIDED BY UNDP COUNTRY OFFICES / OTHER UN AGENCY	3 500.0	1 842.0	2 000.0	3 842.0	4 000.0
750 REIMBURSEMENT TO UNDP SERVICES PROVIDED BY UNDP/DANR	1 600.0	800.0	800.0	1 600.0	1 600.0
UNDP CENTRAL SERVICES	5 044.0	2 945.0	2 900.0	5 845.0	6 000.0
UN CENTRAL SERVICES	900.0	400.0	500.0	900.0	1 000.0
Subtotal	11 044.0	5 987.0	7 700.0	13 687.0	16 912.0
GRAND TOTAL	65 444.0	32 183.0	38 491.0	70 674.0	84 700.0

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Table 3. UNOPS current staffing table

Category/ Post level	Established post	Posts reclassified	Additional posts	Revised staffing table	Filled by 100/200 series staff	Filled by 300 series staff (ALD)	Under recruitment	Net vacant posts	Total
Professional									
ASG	1	0	0	1	1	0	0	0	1
D-2	1	0	0	1	1	0	0	0	1
D-1	9	2	0	11	11	0	0	0	11
P-5	31	0	0	31	25	2	2	2	31
P-4	29	0	0	29	15	6	6	2	29
P-3	17	(1)	0	16	11	5	0	0	16
P-2/1	3	5	1	9	6	2	0	1	9
Subtotal	91	6	1	98	70	15	8	5	98
General Service									
Principal level	50	(6)	12	56	51	0	3	2	56
Other level	103	0	24	127	85	0	34	8	127
Subtotal	153	(6)	36	183	136	0	37	10	183
Total	244	0	37	281	206	15	45	15	281

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INFORMATION ON UNITED NATIONS SYSTEM TECHNICAL COOPERATION EXPENDITURE, 1996

Report of the Administrator

I. PURPOSE

1. To facilitate the work of the Executive Board, the present report (in response to Governing Council decision 81/34 of 27 June 1981) contains a summary of the technical cooperation expenditure of the United Nations system as a whole. Unlike previous years, the present report defines technical cooperation assistance to include the activities of the executing and specialized agencies, UNFPA, UNDP, UNICEF, WPF and the expenditures by the World Bank and IDA specifically directed to this end. A more detailed discussion of the issues in this report is contained in document DP/1997/30/Add.1.

2. The report, it should be noted, deals only with technical cooperation activities. As a consequence, it excludes expenditures on activities relating to refugees, humanitarian and special economic assistance, peace-keeping operations and disaster relief. A complete account of the activities of the entire United Nations system can be found in the annual report of the Secretary General on development activities.

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II. HIGHLIGHTS

3. The following is a summary of the principal issues raised in document DP/1997/30/Add.1:

Technical cooperation assistance for the United Nations system

4. Between 1982 and 1996, the United Nations system as a whole (including the World Bank and IDA) delivered, in nominal terms, $71.1 billion of technical cooperation assistance to its member countries. During this time, a period of 15 years, annual technical cooperation expenditure doubled from $3.0 billion in 1982 to $6.1 billion in 1996. However, the progression towards the doubling of expenditure has not been smooth, characterized as it was by considerable fluctuations. Over a shorter period of time, such assistance moved from $6.2 billion in 1993 to $6.4 billion in 1995, an increase of 3.4 per cent in two years. The contraction of 4.6 per cent in 1996 is due in large part to preliminary data from WHO and will probably be revised upwards next year.

5. If the World Bank Group is excluded, then the value of technical cooperation assistance from this narrower definition of the United Nations system amounted to $53.4 billion during the 15-year period. Expenditure progressed from $2.3 billion in 1982 to 4.3 billion in 1996, less than double with an irregular growth path. If a shorter time span is taken, then such assistance declined from $4.8 billion in 1993 to $4.7 billion in 1995. The rather depressed level of expenditure, $4.3 billion, in 1996 was attributable to shortfalls by UNFPA, UNICEF and to the preliminary data submitted by WFP.

Components of the United Nations system

6. After a slight contraction in 1993, total technical cooperation expenditure of the United Nations executing agencies expanded for the next two years. The available data for 1996 point to a steep shortfall of expenditure: 37 per cent, largely the result of provisional expenditure data from WHO; several other big agencies (UNFPA, UNIDO, FAO, ILO and IMO) also contributed to the contraction in 1996. On the other hand, a number of the smaller agencies recorded growth of expenditures (UNCHS, UNCTAD, ESCAP, ICAO and WMO).

7. Since 1989, extrabudgetary contributions to agencies have therefore evolved from a phase of high growth to moderate growth and, finally, to stagnation. During the four-year period 1993-1996, extrabudgetary contributions contracted only once (1994). Yet they grew by a mere 3.4 per cent: from $1,070.5 million to $1,107.1 million. This state of affairs resulted from the marginal growth of contributions from bilateral sources (which account for two thirds of total contributions) and the rather sharp contraction from multilateral sources.

8. Total expenditure by UNDP as a whole (central resources, and funds and trust funds) is distinguished by an unbroken record of growth during the past four years. Standing at $1,204.4 million in 1993, expenditure reached $1,494.3 million in 1996, which represents an overall increase of 24 per cent. A particularly strong rate of growth, almost 19 per cent, was chalked up in 1996.

9. A total of 32 programme countries each received more than $10 million worth of assistance from UNDP in 1996 (there were 21 such countries in both 1994 and 1995). The data also show that the distribution of expenditure has been shifting towards the Africa region. Cost-sharing by recipient countries themselves has grown considerably. For example, in 1993, cost-sharing accounted for 33 per cent of the expenditure from central resources; three years later, in 1996, this statistic rose to 52 per cent. The Latin America and the Caribbean region was responsible for most of the cost-sharing.

10. After recording three straight years of growth, UNFPA expenditures on field programme activities slipped by 6.3 per cent in 1996. In absolute terms, expenditures amounted to $216.5 million compared to $231 million in 1995. The data indicate that technical cooperation expenditure contracted in all regions, except Asia and the Pacific, which experienced a growth of 3.8 per cent; the contraction was steepest (19 per cent) in Latin America and the Caribbean, lightest (1.5 per cent) in the Arab States and Europe and somewhat more than moderate in Africa. However, movements of expenditure has to be seen over a two-year period for it to be meaningful (see DP/1997/30/Add.1 for details).

11. Programme expenditures by UNICEF remained at the high level of around $800 million per year during 1993-1995. In 1996 a shortfall of $119.7 million was recorded, equivalent to a 15 per cent contraction, the steepest since1982. As was the case for UNDP expenditure, Africa absorbed the largest share of UNICEF expenditure.

12. After a contraction in 1993, total contributions to UNICEF recorded a substantial growth in the following year; growth continued in 1995 although at a much subdued pace. Amounting to $910.6 million, contributions in 1996 slipped by 6 per cent, mainly because of an approximately one third reduction in emergency contributions. A sizeable portion of UNICEF contribution is derived from fund-raising efforts in the private sector (including the sale of greeting cards) and non-governmental organizations.

13. After many years of growth, very rapid in some years, the technical cooperation expenditure of WFP began to slip from 1993. The steep shortfall (21.2 per cent) in 1995 was moderated by the marginal decline (1.2 per cent) in 1996. Nevertheless, the effect of this sustained contraction was to reduce expenditure from $1,487.7 in 1993 to $1,084.9 in 1996.

14. Contributions to WFP moved up and down on a yearly basis although the downs have been steeper. The huge contraction in 1995 was followed by a small but significant gain (1.7 per cent) in the following year. Nevertheless, the level of contribution in 1996, $1,307.7 million, was somewhat smaller than in 1993, when it was $1,421.1 million. Usually, most WFP contributions are derived from a few large donor countries.

15. Technical cooperation expenditures disbursed (not committed) by the World Bank and IDA are characterized by an unbroken period of growth since 1991. The growth rates were particularly high in 1993 and 1995. In general, most of the growth stemmed from the more rapid increase in expenditure by IDA. Continued growth has permitted total assistance to move from $1,411million in 1993 to $1,831 in 1996.

16. Throughout the four-year period, 1993-1996, technical cooperation expenditure from the World Bank contracted once only. A total of $1,160.3 million, representing an increase of 6.1 per cent, was invested in 1996 to 48 member countries. Technical cooperation expenditure by IDA grew at over 16.5 per cent per year during the first three years of the period. But, like the World Bank, growth was much compressed in 1996. Nevertheless, the cumulative impact of this growth was that the expenditure by IDA moved from $473.4 million in 1993 to $670.7 in 1996.

III. EXECUTIVE BOARD ACTION

17. The Executive Board may wish to take note of the present report.

Table I. United Nations system: summary statistics on technical cooperation expenditure and contributions, 1993-1996

	1993		1994		1995		1996	
A. TECHNICAL COOPERATION EXPENDITURE	$M	% [b]	$M	%	$M	%		
1. Executing and specialised agencies	1 154.2	-1.1	1 240.8	7.5	1 270.3	2.4	800.3	-37.0
RBE	345.8	4.2	428.8	24.0	436.5	1.8	269.5	-38.3
EBE	808.4	-3.1	812.0	0.5	833.8	2.7	530.8	-36.3
2. UNDP	1 204.4	3.4	1 246.3	3.5	1 257.4	0.9	1 494.3	18.8
Central resources	1031.0	0.4	1 036.5	0.5	1 014.2	-2.2	1 231.0	21.4
Funds and trust funds administered	173.4	25.4	209.8	21.0	243.2	15.9	263.3	8.3
3. UNFPA	134.2	4.7	201.4	50.1	231.0	14.7	216.5	-6.3
4. UNICEF	803.7	8.1	800.6	-0.4	803.4	0.3	683.7	-14.9
5. WFP	1 487.7	-5.5	1 394.1	-6.3	1 097.8	-21.2	1 084.9	1.7
5. World Bank Group [a]	1 411.3	21.9	1 477.4	4.7	1 742.0	19.9	1 831.0	5.1
World Bank	937.9	25.3	914.8	-2.5	1 094.0	19.6	1 160.3	6.1
IDA	473.4	15.7	562.6	18.9	648.0	15.1	670.7	3.5
6. Total, including the World Bank Group	6 195.5	4.4	6 360.6	2.7	6 401.9	0.6	6 110.7	-4.6
7. Total, excluding the World Bank Group	4 784.2	0.1	4 883.2	2.1	4 659.9	-4.6	4 279.7	-8.2
B. CONTRIBUTIONS								
8. Agencies – Extrabudgetary	1 070.4	10.0	1 044.2	-2.5	1 093.5	4.7	1 107.1	1.3
8.1 Total bilateral	709.7	6.6	668.5	-5.8	682.3	0.9	750.6	11.3
Countries/territories	601.2	8.5	555.5	-7.6	540.0	-2.8	508.8	-5.8
NGOs	36.3	9.1	40.7	12.1	61.4	51.4	79.1	28.8
Unilateral self-supporting	72.2	-7.7	72.3	0.1	80.9	11.9	162.7	101.1
8.2 Total multilateral	360.6	17.2	375.6	4.2	419.2	11.6	356.5	-15.0
United Nations system	309.0	15.8	314.6	1.8	387.9	23.3	319.3	-17.7
Non-United Nations system	51.6	25.9	61.0	18.2	31.5	-48.5	37.2	18.1
9. UNDP	890.9	-24.4	928.4	4.2	899.8	-3.1	847.9	-5.8
10. UNICEF	843.1		956.3	13.4	968.7	1.3	910.6	6.0
11. WFP	1 450.9	-17.2	1 546.3	6.6	1285.4	-16.9	1 307.7	1.8

[a] The data for the World Bank group for the period 1993-1995 have been updated.

[b] % refers to percentage growth over previous year.